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TO: Supervisor Michael D. Antonovich, Mayor
Supervisor Gloria Molina
Supervisor Yvonne Brathwaite Burke
Supervisor Zev Yaroslavsky
Supervisor Don Knabe

FROM: J. Tyler McCauley 
Auditor-Controller

SUBJECT: **NINOS LATINOS UNIDOS - A FOSTER FAMILY AGENCY FOSTER
CARE CONTRACTOR**

Attached is our audit report on Ninos Latinos Unidos Foster Family Agency (Ninos) fiscal operations for the period January 1, 1999 through December 31, 1999. During that period, Ninos received approximately \$4,700,000 in foster care funds from the Department of Children and Family Services (DCFS). Ninos is licensed to operate a Foster Family Agency (FFA) and, for the period of our review, had 105 certified homes with 257 children placed in those homes. The Agency's administrative offices are located in the First Supervisorial District.

Summary of Findings

Our review disclosed a total of \$69,961 in questioned costs incurred during our review period, January 1, 1999 through December 31, 1999. Included in this amount is \$15,914 in deferred compensation paid directly to the Agency's President and \$49,681 in meals provided to Agency employees and clients. We also noted areas where Ninos needs to correct contract compliance deficiencies and strengthen internal controls over disbursements, payroll, inventory and bank reconciliations.

In addition, we noted that the Agency maintained a contingency reserve of FFA funds that appeared to be beyond a "prudent" amount. The disposition of these monies should be resolved with DCFS.

DCFS should ensure that the Agency's management takes appropriate corrective actions to address the recommendations in this report. DCFS should also monitor this contractor to ensure that the corrective actions result in permanent changes.

We discussed our report with Ninos management on January 24, 2001. They have agreed to provide DCFS with a written response and corrective action plan within 30 days of the report date. In addition, DCFS has agreed to provide my office with a written response within 60 days detailing the resolution of all findings contained in the report.

We thank Ninos management and staff for their cooperation during our review.

JTM:PTM:MR:RD:mtv

Attachment

c: David E. Janssen, Chief Administrative Officer
Public Information Office
Audit Committee Members
Commission for Children and Families
Department of Children and Family Services
 Anita Bock, Director
 Barry Chass, Assistant Division Chief
 Ed Sosa, Chief, Out of Home Care Programs
 Genevra Gilden, Chief, Quality Assurance Division
Ninos Latinos Unidos– Foster Family Agency
 Fahir Milian, President
 Board of Directors
California Department of Social Services
 Sharon Ferrante, Chief, Foster Care Audits Bureau
 Evelyn Hemenover, Chief, Foster Care Rates Bureau

Ninos Latinos Unidos
Fiscal Audit of Foster Family Agency Contract

Schedule of Findings

Background

The Department of Children and Family Services (DCFS) contracts with Ninos Latinos Unidos Foster Family Agency (Ninos) to provide the basic needs and services for foster care children placed in the Agency's care. Ninos is licensed to operate a Foster Family Agency (FFA) and, as of our review, had 105 certified homes with 257 children placed in those homes. Ninos' administrative offices are located in the First Supervisorial District.

Under the provisions of the Contract, the County pays Ninos a monthly rate for each child, based on rate classification levels determined by the California Department of Social Services. Ninos received a monthly rate between \$1,362 and \$1,607 per child based on age of placement and, during the period of our review, January 1, 1999 through December 31, 1999, received approximately \$4,700,000 in foster care funds from DCFS.

CDSS has also established minimum amounts the FFA is required to pay certified foster parents. Beginning July 1, 1999, the FFA is required to pay a minimum monthly rate of \$565 to \$715 per child, based on age of placement. Ninos pays its certified foster parents between \$578 and \$731 per month and, during the period of our review, paid out approximately \$2,000,000.

Applicable Regulations and Guidelines

Ninos is required to operate its FFA in accordance with certain federal, State and County regulations and guidelines. We referred to the following applicable regulations and guidelines during our audit:

- FFA Contract, including Exhibit F, Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook).
- Federal Office of Management and Budget Circular A-122 (Circular), Cost Principles for Non-Profit Organizations.
- California Department of Social Services Manual of Policies and Procedures (CDSS- MPP).
- California Code of Regulations, Title 22 (Title 22).

Questioned Costs

We determined that Ninos used FFA funds for questioned costs totaling \$69,961. Details of the questioned costs are discussed below.

Deferred Compensation

We noted \$15,914 in payments made directly to the Agency's President. The payments were for the total accumulated in a deferred retirement account set up with a third party administrator. However, the Agency was not able to provide documentation to support the amounts contributed to the plan and did not have a policy in place regarding the payment of deferred compensation funds. In addition, we question the appropriateness of the deferred compensation being paid directly to the President instead of through a deferred compensation administrator.

Food Expenses

During the period of our review, the Agency paid \$49,681 to provide daily breakfast and lunch to all Ninos employees. Specifically, we noted the following:

- \$21,699 in gross salary payments to a full-time cook who prepared the meals.
- \$27,982 for food and miscellaneous items purchased at warehouse stores.

Section 14 of the Circular states that "costs of amusement, diversion, social activities, ceremonials, and costs relating thereto, such as meals.....are unallowable." Costs of meals are typically allowable when they are related to costs of meetings and conferences, when the primary purpose is the dissemination of technical information or when an employee is on official business of the organization, in accordance with Sections 30 and 55 of the Circular.

Agency management indicated that the meals are also provided to foster children and parents during meetings, training classes and monitoring visits and as a marketing tool for prospective foster parents. However, since the Agency does not maintain records for their meal program, we could not determine to whom the meals are provided.

The Agency also indicated that providing the meals to their employees is an established practice and custom of the organization and falls under the scope of Section 13 of the Circular, which states:

"The costs of house publications, health or first-aid clinics, and/or infirmaries, recreational activities, employees' counseling services, and other expenses incurred with the organization's established practice or custom for the improvement of working conditions, employer-employee relations, employee morale, and employee performance are allowable."

During our audits of other FFAs within Los Angeles County, we have not encountered any similar meal provisions provided to agency employees and clients. We recommend that DCFS resolve this questioned cost and determine whether this type of meal program is allowable and consistent with FFA program objectives. At minimum, the Agency should establish a system to monitor the meals to ensure they are provided in accordance with FFA guidelines and to benefit the foster children.

In addition, it appears that the cost of the meals provided to the employees should have been reported as taxable income since the Agency did not demonstrate that the meals were provided for the “employer’s convenience”, as required by Internal Revenue Service (IRS) Publication 535. The Agency should review their meal costs and ensure their reported salaries and tax withholdings are in compliance with IRS regulations.

Entertainment Expenses

We tested one month of petty cash fund expenditures and noted \$756 in various entertainment expenditures. For example, we found payments for cakes, decorations and other entertainment-related items purchased for employee birthday celebrations, baby showers, Easter, Secretary’s Day, and other events. Section 14 of the Circular states that the costs of amusement, diversion and social activities are unallowable.

Life Insurance

Ninos paid \$3,610 for life insurance for the Agency’s office manager and named the Agency as beneficiary. Per the Circular, Section 7.f.4, costs of insurance on the lives of employees of the organization, when the organization is named a beneficiary, are unallowable.

Recommendations

- 1. DCFS management resolve the \$69,961 in questioned costs and, if appropriate, collect any disallowed amounts.**

In order to demonstrate the ability to appropriately account for FFA funds and administer the FFA program in compliance with the terms of their agreement with the County, the Agency must immediately implement the following recommendations:

Ninos management:

- 2. Maintain adequate supporting documentation for all foster care expenditures.**
- 3. Ensure that FFA funds are used only for necessary, allowable and reasonable expenditures to carry out the purpose and activities of the FFA.**

- 4. Review their meal costs and ensure their reported salaries and tax withholdings are in compliance with IRS regulations.**

Unresolved Payment Discrepancies

Our review disclosed that DCFS and Ninos do not adequately monitor and resolve foster fund payment discrepancies. Per the Agency's accounting records, as of October 12, 2000:

- DCFS owed the Agency \$70,461 for various underpayments that have been outstanding for over 60 days. We noted that the Agency had submitted Payment Resolution Forms to DCFS, but the underpayments remained unresolved.
- The Agency owed DCFS \$63,971 for overpayments that have been outstanding for over 60 days. The Agency had not submitted a Payment Resolution Form for these overpayments.

We noted that some of these payment discrepancies date back as far as January 1997.

Recommendations

DCFS management:

- 5. Work with Ninos management to resolve all outstanding foster care payment discrepancies.**
- 6. Monitor payments to foster care agencies more closely to ensure correct amounts are paid and any over/underpayments are resolved timely.**

Ninos management:

- 7. Ensure all foster care over/underpayments are reported to DCFS and resolved in a timely manner.**

Investing Foster Care Funds

As of December 31, 1999, Ninos had \$716,481 (15% of their annual \$4.7 million in revenues) invested in a money market fund as a contingency reserve. The Circular's contingency provisions state that "contributions to a contingency reserve or any similar provisions made for events the occurrences of which cannot be foretold with certainty as to time, intensity, or with an assurance of their happenings, are unallowable."

It should also be noted that these funds are not bank or FDIC insured and involve investment risk, including possible loss of principal. Ninos should discontinue holding

excess foster care funds in these types of investments. Any excess funds should be returned to DCFS or used to expand the foster care program.

Recommendations

Ninos management:

- 8. Immediately remove all foster care proceeds from any accounts that involve investment risk.**
- 9. Ensure any foster care funds maintained by the Agency in a contingency reserve are reasonable and in compliance with all applicable guidelines and regulations.**

Contract Compliance and Internal Controls

Our audit disclosed several contract compliance issues and internal control weaknesses in addition to those already mentioned. These deficiencies contributed to the questioned expenditures discussed above. DCFS must ensure that Ninos' management takes appropriate corrective actions to address each of the internal control recommendations in this report. DCFS should also monitor this contractor to ensure that the corrective actions result in permanent changes.

Payroll Controls

Our review disclosed the following weaknesses related to the payroll function:

- The Agency does not maintain approved pay rate documentation for any of their employees. Per the Circular, Section 7, salaries and wages will be based on documented payroll rates approved by a responsible official of the organization.
- Employees are compensated for overtime worked and an additional prorated amount for case management. However, the Agency had not approved or documented these compensation terms in their personnel files or employee handbook. In order to avoid conflicts and possible litigation over payroll issues, Ninos should document in detail the policies related to the calculation of employee compensation.
- Three (23%) of 13 timecards reviewed were not signed by the employee or by the supervisor. Without appropriate approvals, the Agency cannot ensure that timecards are accurate and authorized for payment. Per the A-C Handbook and the Circular, payroll records must be signed by the employee and approved by the supervisor.

Recommendations**Ninos management:**

- 10. Ensure employee salary rates are documented and authorized by an official of the Agency.**
- 11. Ensure compensation terms and policies are documented in the employee handbook and are made available to all employees.**
- 12. Ensure employees and supervisors sign and approve all employee timecards.**

Agency Furnished Vehicle for the President

Currently, Ninos makes vehicle lease payments for a 2000 Ford Winstar mini-van used mostly by the Agency's President. The President utilizes the vehicle for both personal and business use, including driving to and from home and work.

During the period of our review, the Agency paid \$5,585 in lease payments for the vehicle. The President reimbursed the Agency \$1,338, or 24% (\$1,338/\$5,585), for the personal use of the vehicle. The reimbursement amount was calculated by the Agency's accountant, based on a two-week travel study. This methodology is inadequate since it does not reflect the actual use of the vehicle for the entire year. The Agency needs to maintain vehicle mileage logs in accordance with the A-C Handbook, Section 3.014, to support their travel expenses. The logs should include dates, destination and headquarter locations, purpose of trips, and mileage incurred.

Recommendation

- 13. Ninos management maintain adequate documentation for vehicle travel expenses, in accordance with the contract, and use it to allocate costs between the Agency and the President.**

Independent Contractors

We noted that the Agency did not maintain contract agreements between itself and two independent contractors. The contract agreements should include the rate of pay, type of service to be provided, time period of agreement and be signed and dated by both the independent contractor and the Agency. We also noted that the Agency did not issue a 1099 MISC Income reporting form to one independent contractor, as required by the Internal Revenue Service.

Recommendations**Ninos management:**

- 14. Ensure a contract agreement is maintained between each independent contractor and the Agency.**
- 15. Ensure all income payments, including those paid to independent contractors, are reported to the appropriate taxing agencies.**

Bank Reconciliations

Our review disclosed that Ninos management does not review and approve bank reconciliations. None of the reconciliations we reviewed were signed and dated. Therefore, we could not determine whether the reconciliations were prepared timely and approved. Section 4.011 of the A-C Handbook states that bank statements shall be reconciled monthly and reviewed by supervisory personnel for appropriateness and accuracy.

We also noted that several checks totaling \$11,450 were outstanding for over six months (dating back to July 1997). The A-C Handbook, Section 4.012, states that unclaimed or undelivered checks shall be cancelled periodically.

Recommendations:**Ninos management:**

- 16. Ensure bank reconciliations are prepared timely and are reviewed and approved by management. All reconciliations must be dated and signed by the preparer and approver.**
- 17. Ensure outstanding checks are reviewed periodically, and, if appropriate, cancelled.**

Inventory Control

The Agency purchases toys as needed for their foster children. During the period of our review, the Agency used \$30,639 to purchase toys and other recreational items (including baseball uniforms, picnic items, and Christmas dinner supplies). Most toy purchases are made toward the end of the calendar year and distributed during their annual Christmas dinner. The Agency provided itemized receipts for all of the items we tested and we noted that the toys were stored in a locked area (warehouse) at the Agency's premises. However, we noted the following internal control weaknesses regarding the security of the items:

- Six employees have a key to access the warehouse. The storage area has only one lock and can be accessed by any one of the individuals. There are no formal procedures in place for access into the warehouse or for the distribution of the toys.
- Toys are given to children when a child's social worker deems it necessary or appropriate. The Agency does not maintain records to indicate who they give the toys to throughout the year. For the Christmas dinner, the Agency maintains a log signed by foster parents for all children that receive toys. However, the Agency does not identify the quantity or type of toys distributed.
- Since the Agency does not have a system for tracking the quantity and type of goods purchased and distributed, we could not determine whether the items secured in the warehouse represented the Agency's actual inventory.

In order to adequately account for all purchases, the Agency should maintain distribution records for all items purchased for the foster families, as well as a system for tracking items secured in the warehouse. The Agency should also develop procedures for physically securing the items stored in the warehouse.

Recommendation:

Ninos management:

18. Maintain records indicating how purchased items are distributed.

19. Ensure all inventory items are adequately secured.

Documented Internal Controls

Currently, Ninos operates using an Agency-prepared operating handbook. However, the policies and procedures in the handbook have not been updated since January 1997 and contain several items that are no longer applicable. Ninos management should update their operating handbook and include any applicable internal control recommendations made in this report.

Recommendation

20. Ninos management update their operating handbook and ensure documented internal controls are current and in compliance with applicable FFA regulations and guidelines.